

Wisconsin Tax Law Changes



Law Changes Effective for the 2008 Tax Year



Social Security Income

For taxable years beginning in 2008 and thereafter, social security benefits are no longer taxable.

Medical Care Insurance Subtraction Expanded

- The subtraction for persons who are not self-employed or who are not employed increases to 66.7% of the amount paid for medical care insurance.
- Employees whose employer pays a portion of the cost of the employee's medical care insurance are allowed to subtract 10% of the amount they paid for medical care insurance. (The percentage increases to 25% for 2009, 45% for 2010 and 100% for 2011 and thereafter.)

Medical Care Insurance Subtraction Expanded – continued

- The amount of medical care insurance claimed as a subtraction cannot be used in the Wisconsin itemized deduction credit.
- The subtraction will be allowed on Wisconsin Form 1A for 2008 for employees and persons who have no employer and are full-year WI residents. (Self-employed persons will still claim the credit on Form 1.)

Standard Mileage Rates

Increased rates effective from July 1, 2008
through December 31, 2008

58.5 cents per mile for business purposes

27 cents per mile for medical and moving
expense

14 cents per mile for charitable contributions

(was not changed)

Section 179 Expense for Farming

- Effective 1/1/08 to 1/1/2010
- Wisconsin adopted the federal increased section 179 expense provisions provided in P.L. 109-222
- Applicable only to property used in farming that is acquired and placed in service in taxable years beginning on or after 1/1/08
- Used by a person actively engaged in farming
- Expense is limited to \$115,000 with a phase-out threshold of \$460,000

Domestic Production Activities Deduction for Nonresidents

For individuals, the domestic production activities deduction is allowed to nonresidents and part-year residents to the extent the domestic production activities income is attributable to a trade or business taxable by Wisconsin.

Deduction for Attorney Fees or Court Costs for Nonresidents

For individuals, the deduction for attorney fees and court costs involving an unlawful discrimination claim are allowed to a nonresident or part-year resident only if the judgment or settlement from the claim is taxable by Wisconsin.

Development Zones Credit Revised

Definition of “member of a targeted group” is expanded to include a person who is employed in a “Real Work, Real Pay” project position.

Film Production Company Investment Credit Revised

- The credit, originally enacted by 2005 Wisconsin Act 483, was amended to make technical corrections.
- Requires certification from the Department of Commerce.

New Credits

- Ethanol and Biodiesel Fuel Pump Credit
(See WTB # 154 – December 2007)
- Film Production Credits
 - Film Production Services Credit
 - Film Production Company Investment Credit
(See WTB #148 – July 2006)

New Credits - continued

- Health Insurance Risk-Sharing Plan Assessment Credit

Effective for taxable years beginning on or after 1/1/06 but the amount of any credits that a claimant is awarded for taxable years beginning after 12/31/05 and before 1/1/08 are claimed against tax imposed for taxable years beginning after 12/31/07.

(See WTB #146 – February 2006)

New Credits - continued

- Manufacturing Investment Credit
(See WTB #157 – July 2008)

“Addback” of Related Party Rent and Interest Expenses

- Rent expenses or interest expenses paid, accrued, or incurred to a related party must be added back to Wisconsin income, but are then allowed as a deduction if certain criteria are met
- This “addback” requirement applies to individuals, corporations, S corporations, partnerships/LLCs, fiduciaries, and insurance companies for taxable years beginning on or after January 1, 2008

“Addback” of Related Party Rent and Interest Expenses

- A related party (or “related entity”) means a person or entity related to the taxpayer under sections 267 or 1563 of the IRC. For example:
 - Family members
 - Corporations with common ownership
 - A person and a corporation owned >50% by the person
- A real estate investment trust (REIT) that is not a “qualified real estate investment trust” is also considered a related entity and subject to this law

“Addback” of Related Party Rent and Interest Expenses

- A taxpayer required to “add back” related party rent and/or interest expense can get the deduction if:
 - The taxpayer files Wisconsin Schedule RT, *Related Entity Expenses Disclosure Statement*, with the return, **AND**
 - The transaction was not entered purely for state income tax avoidance purposes. The statute provides three tests – if any one of the three are true, the expense is deductible as long as Schedule RT is filed.

More Information on “Addback” Law

- WTB #158 – October 2008
- Schedule RT Instructions
- FAQs on DOR Web Site
- WTB #157 – July 2008

Exemption for Veterans Service Organizations

- Income of a veterans service organization chartered under federal law is exempt from Wisconsin income and franchise taxes.

Law Changes Effective for the 2009 Tax Year



Exemption for Retirement Income

- Up to \$5,000 from a qualified retirement plan or IRA is exempt if
 - At least 65 years of age
 - FAGI is less than
 - \$15,000 – single or HOH
 - \$30,000 – MFJ
 - \$30,000 – MFS (must sum both spouses FAGI)

Child and Dependent Care Expenses

- Persons who claim the federal credit may claim a subtraction for the amount of employment related expenses claimed when computing the federal credit up to
 - \$750 for one qualified individual
 - \$1,500 for two or more qualified individuals
- Amounts increase in future years
(See WTB #154 – December 2007)

Veterans & Surviving Spouses Property Tax Credit Revised

- Definition of person eligible is expanded to include an individual or surviving spouse of an individual who had been a resident of Wisconsin for any consecutive 5-year period after entry into active duty
- The veteran will no longer have to be at least 65 years old (or was at least 65 years old at the time of his/her death)

More Law Changes for 2009 Tax Year

- Interest received on bonds or notes issued on or after 10/27/07 by the Wisconsin Health and Educational Facilities Authority to fund the acquisition of information technology hardware or software is exempt.
- Community Rehabilitation Program Credit Created (for taxable years beginning after July 1, 2009)
(See WTB #154 – December 2007)

Changes to Forms

- Form 1A
 - Removed references to taxable social security
 - Allowing a subtraction for medical care insurance
- Form 1
 - Adding lines for 3 new credits
 - Moving some credits to a new Schedule CR

Changes to Forms – continued

- 1NPR
 - Same changes as Form 1
 - Adding an area for each spouse to indicate a residency status
 - Adding lines to list payments made or refunds received prior to filing an amended return. (Form 1NPR can also be used to amend an original 1NPR.)
 - May be other changes

Changes to Forms – continued

- Forms 1A, 1, 1NPR and Form 2
 - The check box on the Underpayment Interest line on the forms will require a numeric value ranging from 1 thru 8 (rather than a check mark). The numeric value used will correspond to a specific reason for a UPI exception or waiver.

UPI Exception/Waiver Box Codes (for 2008 forms)

1. UPI exception because no prior year tax liability
2. UPI exception because estate/trust funded on account of decedent's death
3. UPI exception because 2/3 of gross income from farming/fishing
4. UPI waiver casualty/disaster
5. UPI waiver because retired/disabled reasonable cause
6. UPI waiver because active duty military outside US
7. Annualized income installment method used
8. NOL Carry forward

New Schedules

- Schedule CR – Other Credits
- Schedule FP – Film Production Credits
- Schedule MI – Manufacturing Investment Credit
- Schedule EB – Ethanol and Biodiesel Fuel Pump Credit

New Schedules – continued

- **Schedule HI – Health Insurance Risk-Sharing Plan Assessments Credit** (for corporations, partnerships & LLC's only but credit can be passed through to individual shareholders of tax-option (S) corporations, partners of a partnership & members of an LLC treated as a partnership)
- **Schedule RT – Related Entity Expenses Disclosure Statement**

(Note Schedule names may change)

Processing Updates



Processing At A Glance

Individual Income Tax Returns (from 1/1/08-8/31/08)

3,012,195 – Total returns that went in WINPAS

(Includes amended returns, Form 2, Schedule CC, late returns)

289,855 – Number of returns that suspended

10% overall suspension rate

20% - Suspension rate for paper

3% - Suspension rate for electronic

Refunds

- 2.3 Million – Number of refunds issued
- \$1.4 Billion – Total dollars refunded
- \$611 – Average refund

Improvements Made for this Processing Season

- Moved the TVC Code error corrections to a post-processing activity
- Increased the confidence levels in scanning – resulted in far less data capture errors
- Relaxed some of the business rules so that less returns suspended
- Close monitoring to ensure there were sufficient resources during the peaks

Processing Issues

- 1NPR returns (will be adding reject codes for some of these)
 - Only certain taxpayers reporting basic income and claiming certain credits are allowed to electronically file. Taxpayers who did not meet these requirements were filing electronically
 - Non-resident checkbox was checked but no two-character state code was entered
 - A residence questionnaire was not completed and included with the return

Processing Issues

- TPOS Credit/Schedule OS-E
 - Were receiving blank schedules (no data)
 - Some software only offered the Schedule OS for electronic returns

We will only have one schedule available for both paper and electronic for 2008 returns. It will be a Schedule OS but will look more like the OS-E.

Processing Issues

- The address for mailing Form 1-ES (Estimated Tax voucher and payment) was changed to PO Box 930208, Milwaukee WI 53293-0208. Vouchers are still being sent to the old PO Box.

Reminders

- Verify Estimated Tax Payments claimed on a return by using our Estimated Tax Verification program at www.revenue.wi.gov

More Tax Types in WINPAS

- Withholding Processing went into WINPAS on August 25th.
 - New 15 digit account number
 - 1st three digits – 036 (Withholding Account)
 - Next ten digits – Customer Account Number
 - Last two digits – Varies depending on the number of different accounts the customer has
 - Will be required to use this number on WT-6's and WT-7's (both paper and electronic)

More Tax Types in WINPAS

- Other tax types/forms that went into WINPAS on August 25th
 - Partnerships (Form 3 and Form 3S)
 - Pass Through Withholding
 - Combined Returns (Forms 1CNS and 1CNP)

Contact Information

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